S
352.44
L72DR
1975

PLEASE RETURN

STATE DOCUMENTS COLLECTION
AUG 16 1978
MONTANA STATE LIBRARY
930 E Lyndale Ave.
Helena, Montana 59601

STATE OF MONTANA

DEPARTMENT OF REVENUE

AUDIT SURVEY INFORMATION

JANUARY 28, 1975

GALUSHA
HIGGINS &
GALUSHA
CERTIFIED PUBLIC ACCOUNTANTS

Montana State Library
3 0864 1003 2933 6

Our reports are issued with the understanding that, without our consent, they may be reproduced only in their entirety. Should it be desired to issue or publish a condensation or a portion of this report and our name is to be used in connection therewith, our approval must first be secured.

Galusha, Higgins and Galusha

THIS REPORT CONTAINS 13 PAGES, 1 THROUGH 13

STATE OF MONTANA

DEPARTMENT OF REVENUE

AUDIT SURVEY INFORMATION

JANUARY 28, 1975

STATE OF MONTANA

DEPARTMENT OF REVENUE

AUDIT SURVEY INFORMATION

JANUARY 28, 1975

TABLE OF CONTENTS

	PAGE NUMBER
LETTER OF TRANSMITTAL	1 - 3
ORGANIZATIONAL NARRATIVE	4 - 6
STATISTICAL SUMMARY ESTIMATE	7 - 13

GALUSHA
HIGGINS &
GALUSHA
HELENA, MONTANA

CERTIFIED PUBLIC ACCOUNTANTS
BOX 1699—555 FULLER AVENUE
HELENA, MONTANA 59601
TELEPHONE 406/442-5520

January 28, 1975

Mr. William A. Groff, Director
Department of Revenue
State of Montana
Mitchell Building
Helena, Montana

Dear Mr. Groff:

In accordance with our engagement we are submitting the results of our survey of the Department of Revenue. The survey provides estimates of the numbers of transactions and organizational narratives aimed at assisting potential auditors by providing them with an overall operating view of the Department so that they may submit individual audit fee proposals. The survey also includes audit time estimates in order to provide a basis for Department legislative appropriation requests.

We wish to emphasize the following items contained or in some cases not contained in our audit cost estimate.

1. The projected audit time was based on our opinion of adequate audit procedures. Actual engagement conditions may affect the scope of certain testing procedures, however, for our survey we have utilized the minimum rather than maximum limits for testing.

2. A minimum limit was established for the number of Liquor Division inventory locations which would require physical inventory observation by the auditors. This limit was based on the dollar value of the total inventory, however, the minimum limit may be achieved by observing the inventory at the central warehouse and the twelve (12) largest inventory value retail stores.

   This approach is sound from a fiscal auditing standpoint, however, it may not meet Department objectives. Therefore, the Department may desire an alternative proposal for increased store visitations. But, the economics of additional time and travel cost must be considered.

3. The survey contains no provision for travel, per diems or out-of-pocket costs. Due to such factors as location of auditing firms and distances required for minimum liquor store inventory observations, it is our opinion that travel and per diem costs should be a separately bid or estimated cost component of each prospective auditing firm's over all cost estimate.

If this approach is not satisfactory, then, the audit should be estimated without travel, per diem or out-of-pocket costs but the contract should provide for reimbursement of actual costs incurred.

4. A scope limitation was assumed agreeable as to the operations of the Liquor Division due to the effect of not observing the June 30, 1974 inventory.

   If this is not the case, additional time will be required to satisfy the auditors of the beginning inventory valuation and physical existence.

5. Accounting system changes for accounts receivable and fixed assets may require time estimate modifications if or when these changes are instituted.

6. As an economic consideration of performing an audit of the Department of Revenue, any appointed auditors should be instructed in the operations of the Statewide Budgeting and Accounting System.(SBAS). We understand, that a program of instruction is offered semi-annually by the Department of Administration. A special one and one-half day class instructed by the Department of Administration for independent auditors would provide invaluable assistance in the performance of audit functions and should reduce Revenue Department personnel time required to answer questions of the audit staff. We would suggest that training costs be included in the total audit cost estimate. However, the cost allowable for such training should be at reduced billing rates of approximately 50% to 60%. We estimate that from 5 to 7 audit staff personnel would utilize the training session.

7. The Legislative Auditor has a computer sampling program available which is compatible with the State of Montana computer. It appears this system could be integrated with the independent audit programs. However, the process of integration would have to be approved by the Legislative Auditor and evaluation of the programs would have to be made by the independent auditor. All hourly time estimates are therefore based on manual testing techniques. We estimate that time saved by implementing the system, if it is in accordance with the independent auditor's testing criteria, would be approximately sixty hours.

As indicated in the detail time analysis, two audit areas, accounts receivable and fixed assets, required comments concerning the uncertainity of Department progress on implementing changes. All prospective auditors should be kept advised by the Department as to changes which could affect the audit engagement. This may also reduce repeated inquiries from prospective audit firms.

Due to the magnitude of the Department audit, prompt consideration should be given to:

a) Bidding notices (as quickly as possible after approval of appropriation) - with a reasonable (but not excessive) time to reply.

b) Prompt engagement award notifications.

This will be essential if a substantial amount of preliminary (prior to June 30) work is performed as it should be.

The final audit engagement contract should contain provisions for progress billings to be made as the various phases of audit work are completed. In addition to Department audit cost estimates, proposals by interested auditor should also contain the following items:

1. History of auditing firm experience in government auditing i.e., list of engagement and dates performed.

2. Names and experience background of audit firm supervisory and in-charge personnel expected to conduct examination.

3. An outline of their time schedule, listing approximate dates and time required for conducting various phases of the engagement i.e., preliminary, year-end and final work.

If there are any questions concerning the information contained in the survey, please feel free to contact us.

Very truly yours,

Galusha, Higgins & Galusha

GALUSHA, HIGGINS AND GALUSHA
Certified Public Accountants

STATE OF MONTANA

DEPARTMENT OF REVENUE

ORGANIZATIONAL NARRATIVE

The Department of Revenue is organized into twelve Divisions operating under the Director of Revenue and the Governor of the State of Montana.

Presented below are narratives concerning areas of responsibility of each Division, functions performed, number of personnel and other information relating to general operations:

1. Name: Auditing and Accounting

   Number of Employees: Twenty-two

   Areas of Responsibility
   - Cashiering - approximately $200 million in receipts per year
   - Implementation and review of accounting systems
   - Bad debt collection (new area of responsibility considered minor function at present)
   - Advises State of Montana Board of Investment of excess funds for investments of Department monies
   - Administers Trust and Legacy and Resource Indemnity accounts
   - Preparation of financial statements

2. Name: Legal

   Number of Employees: Seven

   Areas of Responsibility: All legal matters concerning tax collection including litigation and hearings

3. Name: Investigation

   Number of Employees: Sixteen

   Area of Responsibility:
   - Investigation of welfare fraud
   - Collections of past due revenues
   - Investigation of applicants for liquor licenses

4. Name: Research
   Name of Employees: Seven
   Areas of Responsibility:
   - Revenue estimates
   - Tax studies
   - Legislation
   - Statistical reporting

5. Name: Operations
   Number of Employees: Sixteen
   Areas of Responsibility:
   - Mail processing
   - Maintenance of central supplies inventory
   - Maintenance of personnel records

6. Name: Data Processing
   Number of Employees: Twenty-two
   Areas of Responsibility:
   - System development and maintenance
   - Data input

7. Name: Liquor
   Number of Employees: Three Hundred Seventy-six
   Areas of Responsibility:
   - Purchasing and distribution of liquor
   - Liquor listing
   - Receiving, processing and shipping of liquor supplies
   - Issuing liquor, beer and wine licenses and approving license transfers
   - Supervision of State of Montana quota system
   - Supervision of retail State liquor stores
   - Maintenance of retail store and warehouse inventory levels

8. Name: Income Tax Division
   Number of Employees: Seventy-two
   Areas of responsibility:
   - Processing and auditing individual income tax returns

- Processing inheritance tax returns
- Administering abandoned property and escheated estates
- Processing employer withholding tax returns

9. Name: Corporation Tax Division
   Number of Employees: Sixteen
   Areas of Responsibility:
   - Processing corporate income tax returns
   - Office and field audit of returns

10. Name: Motor Fuel Division
    Number of Employees: Twenty-five
    Areas of Responsibility:
    - Auditing and processing motor fuel returns
    - Licensing motor fuel dealers

11. Name: Miscellaneous Tax Division
    Number of Employees: Thirteen
    Areas of Responsibility:
    - Administering the collection of twenty-five types of taxes and licenses
    - Auditing returns filed for various taxes
    - Licensing dealers and users for the various taxes

12. Name: Property Assessment Division
    Number of Employees: Four Hundred fifty
    Areas of Responsibility:
    - Assessment and valuation of net proceeds tax and public utilities taxes
    - Valuation and assessment of taxes on land, improvements and timber
    - Valuation and assessment of taxes and residential, commercial and industrial properties

STATE OF MONTANA

DEPARTMENT OF REVENUE

STATISTICS SUMMARY ESTIMATE

We have outlined below, based on our conversations with Department personnel, the basic documents employed by the Statewide Budgeting and Accounting System and an approximation of the number of transactions and/or documents involved in the yearly accounting process. Also contained in the summary is the computation of transactions which are not integrated into the SBAS. These transactions are primarily processed by the Liquor Division which has its own computer.

	Employees	Pay Periods	Documents	Transactions	Memo Dollars 1973-74
PAYROLL - Bi-weekly					
Liquor Division	376	24		9,024	
Property Assessment Division	450	24		10,800	
All other divisions	216	24		5,184	
				25,008	
TRANSFER WARRANT CLAIMS					
Total all divisions processed through audit and accounting			13,915	208,871	
Liquor Division			10,018	20,036	
All other divisions			3,897	188,835	
			13,915	208,871	
State income tax refunds				168,000	
Motor fuels tax refund				350	
Corporate refunds				1,000	
Minimum of 2 items per document for statistics projection -					
Liquor - use 2				20,036	
All others - use 5				19,485	
				208,871	

STATISTICS SUMMARY ESTIMATE

(Continued)

COLLECTION REPORTS	Documents	Transactions	Memo 1973-74 Dollars
Total all divisions processed through auditing and accounting	5,170		
Liquor	400		
All other divisions	4,770		
State income tax estimate payments		3,200	
State income tax payments		110,000	
State withholding tax remittances		76,000	94,000,000
State inheritance tax remittances		4,233	
Corporate tax remittance		12,600	
Crude Oil production		976	5,000,000
Strip coal mining		28	25,000
Retail coal dealers		16	200
Retail cement dealers		84	143,000
Natural gas		24	407,000
Electricity and electrical energy		60	1,140,000
Telephone		48	971,000
Telegraph		4	110
Vermiculite producers		4	12,000
Freight line		5	370,000
Public contractors		1,313	101,000
Metalliferous mines		7	2,240,000
Express lines		1	600
Amtrak		1	41,002
Rural Electric Co-op		4	6,880
Resource Indemnity Trust		6,000	1,140,000
Consumer Counsel Act		3,000	80,000
Contractors gross receipts		10,000	1,660,000
Store licenses		12,803	239,000
Cigarette tax		432	10,233,000
Cigarette license		3,058	21,000
Tobacco products tax		432	226,000

STATISTICS SUMMARY ESTIMATE

(Continued)

COLLECTION REPORTS (Continued)	Documents	Transactions	Memo 1973-74 Dollars
Camper certificate and decal		33,000	30,000
Motor fuel returns - all		74,000	38,177,000
Trip permits		16,500	
Liquor store reports		36,500	43,000,000
Beer, wine and liquor licenses		2,800	
Beer, wine and liquor license transfers		300	80,000
Liquor identification cards		1,400	
Penalty - net proceeds tax		100	10,000
Abandoned property		100	
Escheated estates		100	
Federal revenue sharing		100	
		409,233	
TREASURER DEPOSIT CORRECTION			
Liquor	50	50	
All other divisions	10	10	
	60	60	
NOTICE OF DISHONORED CHECKS			
Liquor	25	25	
All other	100	100	
	125	125	

NO WARRANT TRANSFERS

(Transfers of money from one accounting entity to another within same Treasury Fund Structure; the involved accounting entities are not administered by same agency; and no warrant is required. No warrant transfer is used to pay inter-agency invoices)

STATISTICS SUMMARY ESTIMATE

(Continued)

	Documents	Transactions
NO WARRANT TRANSFERS (Continued)		
Total all divisions	1,053	2,106
Liquor	641	1,282
All other divisions	412	824
	1,053	2,106
WARRANT CANCELLATIONS		
Total all divisions	280	820
Liquor	20	20
All other divisions	260	260
	280	280
STALE DATED WARRANT CANCELLATIONS		
Total all divisions	20	20
Liquor	10	10
All other divisions	10	10
	20	20
EXPENDITURE ACCRUAL REPORT (To accrue valid obligations against appropriations)		
Liquor	450	450
All other divisions	350	350
	800	800
(only 1 accounting entity plus 1 appropriation per report)		
INTER-AGENCY'S INVOICES (To bill other agencies for materials and services)		
Liquor	10	
All other divisions	20	
	30	

STATISTICS SUMMARY ESTIMATE

(Continued)

	Documents	Transactions
JOURNAL VOUCHERS		
Liquor	400	
All other divisions	665	
	1,065	
PURCHASE ORDERS		
Liquor	1,000	
All other divisions	140	
	1,140	
PURCHASE ORDER ADJUSTMENTS		
Liquor	50	
All other divisions	50	
	100	
REQUISITIONS - GENERATED WITHIN DEPARTMENT		
Liquor	100	
All other divisions	500	
	600	
NOTICE OF LEGISLATIVE APPROPRIATION		
Liquor	8	
All other divisions	26	
	34	

STATISTICS SUMMARY ESTIMATE

(Continued)

	Documents	Transactions
NOTICE OF EXECUTIVE APPROPRIATION		
Liquor	7	
All other divisions	3	
	10	
NOTICE OF AGENCY APPROPRIATION ALLOCATION		
Liquor	150	
All other divisions	100	
	250	
NOTICE OF REVENUE ESTIMATE		
Liquor	10	
All other	60	
	70	

INVESTIGATION

This Division does have some collection function - principally done in the field with numbered receipt books

NON MONETARY DOCUMENTS/TRANSACTIONS

All Divisions other than Liquor

Individual income tax returns
(these are no tax returns)

Corporation income tax returns
(No tax returns)

STATISTICS SUMMARY ESTIMATE

(Continued)

	Documents	Transactions
NON MONETARY DOCUMENTS/TRANSACTIONS (Continued		
Withholding tax returns		
(no tax returns)		
Motor fuels tax		
No tax returns		28,000
Credit balance returns		14,000
No operations returns		4,900
NON MONETARY DOCUMENTS/TRANSACTIONS AND ITEMS WHICH ARE NOT INTEGRATED WITH SBAS		
Liquor Divisions		
Store leases		132
Store invoices (inventory transfers from warehouse to retail stores)		2,000
Receiving notices (reports)		1,200
New and transfer license application files		150
Inventory listing and delistings		150
Breakage reports		500
Destruction reports		12
Monthly inventory reports		1,760
Inventory sales price formula calculations - regular listing		750
specials		550
Retail store notices of economical warehouse case shipments to retail stores - for best freight cost		146
OTHER ITEMS FOR CONSIDERATION		
Accounts Receivable		
System being developed at present.		
Status at June 30, 1975 questionable.		